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MEMORANDUM TO: Joseph Spetrini
Acting Assistant Secretary
for Import Administration

FROM: Holly Kuga
Acting Deputy Assistant Secretary
for Group II, Import Administration

SUBJECT: Issues and Decision Memorandum for the 2000-01 Antidumping Duty Administrative Review: Certain Small Diameter Carbon and Alloy Seamless Standard, Line, and Pressure Pipe from Romania

Summary

We have analyzed the case and rebuttal briefs of interested parties for the final results of this administrative review covering certain small diameter carbon and alloy seamless standard, line, and pressure pipe (seamless pipe) from Romania. Comments were received from a domestic producer, United States Steel Corporation (U.S. Steel) and the respondent. The respondent in this case is S.C. Silcotub S.A. (Silcotub). We recommend that you approve the positions we have developed in the **Department Position** sections of this memorandum.

Background

On September 10, 2002, the Department of Commerce (the Department) published the preliminary results of this review. See Certain Small Diameter Carbon and Alloy Seamless Standard, Line and Pressure Pipe From Romania: Preliminary Results of Antidumping Duty Administrative Review and Postponement of Final Results, 67 FR 57388 (September 10, 2002) (Preliminary Results). The period of review (POR) is February 4, 2000 through July 31, 2001. On October 10 and October 22, 2002, we received case briefs and rebuttal briefs, respectively, from U.S. Steel as well as Silcotub. No hearing was requested by either U.S. Steel or the respondent in this administrative review.

List of Comments in the Issues and Decision Memorandum

Comment 1: **Use of Market Economy Price to Value Lacquer**

Comment 2: **Basis for the Financial Ratios for Depreciation, Selling, General and Administrative (SG&A) Expenses, Interest Expenses, and Profit**

Comment 3: **Valuation of Natural Gas**

Comment 4: **Valuation of Electricity**

DISCUSSION OF ISSUES

Comment 1: Use of Market Economy Price to Value Lacquer

Silcotub argues that the Department erred in using Silcotub's market-economy purchases to value lacquer because such purchases are not meaningful, representing less than 10 percent of Silcotub's overall purchases of lacquer. Silcotub argues that the Department should use the surrogate value for lacquer provided in Silcotub's April 11, 2002, submission.

U.S. Steel argues that it is the Department's practice to use actual prices for material inputs purchased from market-economy countries in accordance with section 351.408(c)(1) of the Department's regulations. U.S. Steel cited the Department's use of actual purchase prices in the antidumping investigation of this proceeding, despite the fact that the volume represented less than 7 percent of total lacquer purchases. Accordingly, U.S. Steel requests that the Department continue to value lacquer inputs based on Silcotub's market-economy purchases.

Department Position:

We disagree with the respondent. Pursuant to section 351.408(c)(1) of the Department's regulations, while the Department normally uses publicly available information to value factors of production, in instances where a factor is purchased from a market-economy supplier as well as from nonmarket-economy suppliers, the Department will normally value the factor using the price paid to the market-economy supplier. In this case, Silcotub purchased lacquer in sufficient quantities from a market-economy supplier and in a market-economy currency. As noted by U.S. Steel, the Department determined in the antidumping investigation of this proceeding that the percentage of lacquer Silcotub bought from a market-economy supplier was sufficient to value the factor for lacquer based on that actual price.[1] In this case, the percentage of lacquer Silcotub acquired from a market-economy supplier was even higher than in the investigation. Therefore, for purposes of the final results of this review, consistent with the Department's preference for, and past practice of, using actual prices paid to a market-economy supplier to value factors of production, as stipulated in section 351.408(c)(1) of the Department's regulations, we have continued to value all of Silcotub's lacquer consumption based on the actual price paid to the market-economy supplier.

Comment 2: **Basis for the Financial Ratios for Depreciation, SG&A Expenses, Interest Expenses, and Profit:**

The Egyptian El Nasr's Financial Statements:

U.S. Steel argues that the financial statements of El Nasr Steel Pipes & Fittings Company (El Nasr), which were used as the basis for calculating the financial ratios for the preliminary results of this review, are not contemporaneous with the POR. According to U.S. Steel, El Nasr's 1998/99 financial statements cover a one-year period ending in June 1999, and thus predate the entire POR. U.S. Steel also claims that El Nasr utilizes a different input and production process than Silcotub, because El Nasr begins with hot-rolled steel sheets and welds them (either spirally or longitudinally) into pipe. Moreover, U.S. Steel contends that El Nasr, with an annual production capacity of only 10,000 metric tons, is very small in relation to Silcotub. Accordingly, U.S. Steel argues that El Nasr's experience is a poor surrogate for the depreciation, SG&A expenses, and interest expenses incurred by Silcotub. U.S. Steel also claims that El Nasr's financial statements do not reflect data pertaining to the company's non-depreciation factory overhead. According to U.S. Steel, the only non-depreciation item included in the Department's calculation of factory overhead was "rent," which represents just 0.47 percent of El Nasr's total cost of manufacture. U.S. Steel argues that it is unclear whether this "rent" relates to El Nasr's factory or to its administrative headquarters and sales office, in which case it should properly be classified under SG&A expenses.

While Silcotub proposes the use of Filipino financial statements, as described below, it refutes U.S. Steel's argument that El Nasr's financial statements do not reflect non-depreciation overhead. According to Silcotub, as U.S. Steel itself noted, El Nasr's financial statements contain a specific line item for rent and also contain a line item for "needed services." Both items, according to Silcotub, represent other overhead items.

***The Egyptian Al Ezz Financial Statements*:**

U.S. Steel requests that, for fiscal year 2000, the Department base the surrogate financial ratios for

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[1] See Final Determination of Sales at Less Than Fair Value: Certain Small Diameter Carbon and Alloy Seamless Standard, Line and Pressure Pipe from Romania, 65 FR 39125 (June 23, 2000) and accompanying Issues and Decision Memorandum, at Comment 10.

depreciation, SG&A expenses, interest expenses, and profit on the financial statements of Al Ezz Steel Rebar Company (Al Ezz), an Egyptian producer of rebar and billet. In comparing Al Ezz to El Nasr, U.S. Steel argues that Al Ezz is a more appropriate surrogate for the following reasons:

2. the financial statements for Al Ezz are contemporaneous with the POR.
3. on an operational basis, Al Ezz, like Silcotub, processes billets into finished steel products by heating and rolling the billets into the desired form, and
4. the annual production capacity of Al Ezz is similar to that of Silcotub

U.S. Steel states that Silcotub has not argued that the financial statements from companies in Egypt are inappropriate or unusable. U.S. Steel also adds that, because the Department is valuing other factors using Egyptian surrogate sources, and it is the Department's preference to use factor values from one single country, the Department should continue to use Egyptian information to value overhead, SG&A expenses, interest expense, and profit.[2] U.S. Steel, however, maintains that Al Ezz, like El Nasr and other sources of financial statements from Egypt, does not itemize the non-depreciation overhead items included in its cost of sales. For this reason, and as described below, U.S. Steel requests that the Department use the 2000-2001 financial statements (placed on the record of this administrative review) for an Indian seamless pipe producer, Maharashtra Seamless Limited (Maharashtra), for purposes of calculating the ratio for non-depreciation expenses.

Silcotub argues that the Department should not use Al Ezz data in the final results because Al Ezz is not a proper surrogate for a seamless pipe company. Silcotub lists several reasons in support of its argument for not using Al Ezz data.

First, Silcotub refutes U.S. Steel's argument that Al Ezz operations are similar to those of Silcotub. According to the respondent, Al Ezz does not produce pipe and tube, and there is no information presented by U.S. Steel to support the notion that rebar is comparable to pipe and tube.[3]

Second, the Al Ezz financial statements on the record are made up of consolidated statements which include data for both Al Ezz Steel Rebar and the Al Ezz Steel Mill Company. Silcotub maintains that the "product line of Al Ezz Steel Mill is unclear, but appears to be flat products."[4] This supports the argument that Al Ezz is not a proper surrogate for a seamless pipe producer. Silcotub also reiterates that the billet produced by Al Ezz is a very different product from the subject pipe and tube.[5]

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[2] See U.S. Steel's Rebuttal Brief at 1-3.

[3] See Silcotub's October 22, 2002, rebuttal brief (Silcotub Rebuttal Brief) at 3.

[4] Id.

[5] See id. at 4.

Third, the Al Ezz financial statements show that Al Ezz has effectively merged its marketing operations with ANSDK, a flat-rolled steel producer. According to Silcotub, this is evidence that Al Ezz is a more complex conglomerate and is not merely a single steel company.[6]

Fourth, the Al Ezz financial statements are not completely audited. According to Silcotub, the auditors explicitly assert in their report that they have not audited the Al Ezz Steel Mills portion of the consolidated financial statements. Silcotub argues that this fact raises questions about the validity of the entire financial statements.

Fifth, Silcotub claims that Al Ezz Rebar's financial expenses are extremely high, stating that Al Ezz Rebar's investment in a flat product company, ANSDK, is partially to blame for the abnormal start-up cost, which distorts the company's financial statements.[7]

Sixth, Silcotub maintains that Al Ezz makes huge quantities of billets and has a 95-ton electric arc furnace and a billet caster with a capacity of 800,000 tons.[8] The respondent adds that, unlike Silcotub, El Nasr and the Filipino pipe producers,[9] who purchase the inputs to make pipe and tube, Al Ezz produces the inputs used to make rebar. According to Silcotub, Al Ezz's fully-integrated plants are more capital intensive and require different inputs and energy than converters such as Silcotub and El Nasr. In support of its argument, Silcotub states that U.S. Steel itself has in past cases taken the position that integrated companies will have overhead ratios higher than those of non-integrated producers.[10] To further support its argument, Silcotub cites to the Issues and Decision Memorandum in the Notice of Final Determination of Antidumping Duty Investigation: Certain Hot-Rolled Carbon Steel Flat Products From Romania, 66 FR 49625 (September 28, 2001) (at Comment 19) (Hot-Rolled Steel), where U.S. Steel advocated against using Filipino pipe producers as surrogates for integrated hot-rolled steel producers on the grounds that the Filipino companies were not "integrated." According to Silcotub, in Hot-Rolled Steel the Department agreed with U.S. Steel's position. Therefore, Silcotub argues that the Department should be consistent and not use Al Ezz data, because Al Ezz is an integrated producer.

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[6] See id.

[7] See id. at 5.

[8] See U.S. Steel's submission of April 25, 2002, at Ex. 4.

[9] Note: Silcotub references Filipino companies for which it provided financial statements on the record for purposes of the calculation of the financial ratios.

[10] See id. at 7. Silcotub cites the Issues and Decision Memorandum in Notice of Final Determination of Sales at Less Than Fair Value: Certain Cold-Rolled Carbon Steel Flat Products from the People's Republic of China, 67 FR 62,107 (October 3, 2002), at Comment 14.

Seventh, Silcotub states that Al Ezz has many related party transactions, including "supply of products" and "settlement of same amounts due to and from other parties."[11] According to Silcotub, Al Ezz appears to buy products from related parties and seems to have settled some debt owed by related parties, thereby undermining the credibility of the financial statements.[12]

Finally, in support of its argument, Silcotub cites the Issues and Decision Memorandum in Notice of Final Determination of Sales at Not Less Than Fair Value: Pure Magnesium from the Russian Federation, 66 FR 49347 (September 14, 2001), at Comment 1. There, the Department decided not to use the financial statements of Billiton, a conglomerate, because they: (a) contained data from more than one company, (b) did not allow the Department to obtain overhead, SG&A expenses, and profit data from the same source, and (c) were less accurate than other available options. Silcotub argues that each of the reasons cited by the Department as a basis for rejecting the Billiton financial statements in that case is equally relevant to the Al Ezz financial statements in this case.[13]

Alternatively, Silcotub argues that, if the Department opts to use Al Ezz data, the Department should make certain corrections to U.S. Steel's calculations of the Al Ezz financial ratios. First, Silcotub argues that**,** because the Al Ezz financial statements contain very high foreign exchange losses, the Department should "limit the inclusion of such expenses to net foreign losses attributable to Al Ezz operations, excluding the portion of losses that relate to the currency conversion of assets and liabilities."[14] Further, Silcotub argues that the Department should allocate foreign exchange losses relating to operations either to accounts receivable or to accounts payable. The respondent requests that, consistent with the Department's practice, the portion of currency losses attributable to accounts payable be included in the material costs of Al Ezz, as such losses were incurred by Al Ezz in securing materials for use in the production process. Similarly, the portion of currency losses attributable to accounts receivable should not be included in the SG&A expenses.

Second, Silcotub refutes U.S. Steel's assumption that all of the Al Ezz depreciation and amortization relate to productive assets and are therefore included in the cost of sales on the Al Ezz income statements, stating that a portion of depreciation and amortization was related to non-productive assets, as well. As such, Silcotub argues that this depreciation and amortization cannot be considered a part of cost of sales. According to Silcotub, the statement of cash flows shows clearly that the amortization relates to intangible assets. As an initial matter, Silcotub questions whether it is appropriate to include the amortization of intangible assets in the surrogate financial ratios analysis, as such assets represent some unique assets (such as patents) that provide value to Al Ezz. Silcotub further adds that there is no

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[11] See Silcotub Rebuttal Brief at 8.

[12] See id.

[13] See id. at 8-10.

[14] Id. at 11.

evidence that amortization of such assets is included in the Al Ezz cost of sales.[15]

On the contrary, Silcotub maintains that there is in fact abundant evidence that depreciation and amortization are not completely included in the Al Ezz cost of sales. According to Silcotub, the Al Ezz income statements for fiscal years 2000 and 2001 contain information that clearly identify a portion of depreciation and amortization as being outside of the cost of sales. Silcotub adds that, at the same time, the cost of sales for fiscal year 2000 is consistent between the fiscal year 2000 and fiscal year 2001 income statements. Therefore, Silcotub argues that, to the extent that depreciation and amortization are included in the antidumping analysis, the Department should properly split these items between cost of sales and SG&A expenses.[16]

***The Filipino Mayer Steel Pipe Financial Statements*:**

Silcotub argues that the fiscal year 2000 financial statements provided on the record for a Filipino company, Mayer Steel Pipe Corporation (Mayer), should be used as a basis for the financial ratios of overhead, SG&A expenses, and profit. According to Silcotub, although the ratios derived from El Nasr's financial statements are not overly aberrational, the 2000 financial statements of Mayer are more typical of the pipe industry and are vastly superior to the data proffered by U.S. Steel. Silcotub asserts that the financial statements for Mayer are a perfect surrogate for Silcotub's financial ratios because they provide the data necessary for calculating the financial ratios for overhead, SG&A expenses, and profit, and are from one of the countries included in the Department's list of possible surrogates.

U.S. Steel argues that Silcotub does not provide support for its assertion that the financial statements of Mayer are more typical of those of the pipe industry.[17] U.S. Steel further argues that Mayer is in the welded pipe industry, which uses a different input and production process than the seamless pipe industry. Therefore, U.S. Steel concludes that the Department should not use the financial statements of Mayer, because Mayer's financial experience is not typical of the experience of a seamless pipe producer.[18]

***The Indian Financial Statements of Maharashtra Seamless Limited*:**

With respect to non-depreciation factory overhead, U.S. Steel claims that, at the time of the preliminary results, there was no information on the record from which the Department could have derived

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[15] See id. at 12.

[16] See id.

[17] See U.S. Steel's Rebuttal Brief at 3.

[18] See id. at 3-4.

appropriate surrogate information regarding non-depreciation factory overhead costs. As indicated above, U.S. Steel maintains that the only non-depreciation item included in the Department's calculation of factory overhead was "rent," which represents 0.47 percent of El Nasr's total cost of manufacturing. However, U.S. Steel argues that it is unclear whether this "rent" relates to El Nasr's factory, or to its administrative expenses, in which case it would more properly be included in SG&A expenses. U.S. Steel further claims that certain overhead expenses such as plant property taxes, research and development costs related to merchandise under consideration, and indirect materials were not captured in the Department's factors of production methodology used in the preliminary results. As described above, U.S. Steel maintains that the financial statements of Al Ezz, like those of El Nasr and other Egyptian financial statements, do not itemize the non-depreciation overhead included in the cost of sales. For this reason, U.S. Steel requests that the Department use the fiscal year 2000 financial statements of Maharashtra, an Indian seamless pipe producer. See Table 3 of U.S. Steel's September 30, 2002, submission. According to U.S. Steel, Maharashtra's financial statements are an ideal surrogate because they are contemporaneous with the POR and Maharashtra is operationally identical to Silcotub. Specifically, U.S. Steel maintains that Maharashtra, like Silcotub, is a non-integrated seamless pipe producer which purchases its feedstock of billet rounds.

U.S. Steel also states that the financial statements provided by Silcotub for three welded pipe producers (i.e., Fidelity Steel Manufacturing Corp., Group Steel Corp., and Mayer Steel Pipe Corp.) in the Philippines, another potential surrogate country, are the same financial statements placed on the record by Sidex, a respondent in Hot-Rolled Steel. These financial statements, however, were not used by the Department in that case because the Department had financial data on the record for two Indian companies and one Indonesian fully integrated steel producer, all of which produce hot-rolled steel. U.S. Steel maintains that, similar to the situation in Hot-Rolled Steel, the above-referenced producers in the Philippines do not produce the subject merchandise. U.S. Steel states that, in fact, there are no producers of seamless pipe in the Philippines. Therefore, U.S. Steel argues, although the Department considers welded pipe to be comparable to seamless pipe (in the same way that it is comparable to hot-rolled steel),[19] that does not justify using data for a welded pipe producer as a proxy for the overhead calculation of a seamless pipe producer. U.S. Steel further argues that, as the Department recognized in Hot-Rolled Steel, it is essential that the surrogate company used for the calculation of the non-depreciation factory overhead ratio be one that manufactures the subject merchandise. For this reason, and as was the case with Hot-Rolled Steel, U.S. Steel requests that the Department not use the financial statements of the welded pipe producers from the Philippines, and use instead Maharashtra's fiscal year 2000 financial statements.

As noted above, Silcotub refutes U.S. Steel's allegation that the El Nasr financial statements do not contain non-depreciation overhead, stating that U.S. Steel itself notes that the financial statements contain a line item for rent. In addition, Silcotub believes that the line item "needed services" in El

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[19] See Preliminary Results, 67 FR at 57392 (finding that El Nasr, which makes welded pipe, produces "comparable" merchandise).

Nasr's financial statements reflects other overhead expenses.[20]

Although Silcotub argues that the financial statements of Mayer should be used because they are complete and because they are from an entity located in one of the surrogate countries in this case, Silcotub requests that, if El Nasr's financial statements are used for purposes of the final results, the Department should not add non-depreciation overhead from another company, such as Maharashtra. Silcotub asserts that the Department should not deviate from its practice of valuing all of the financial ratios from a single set of financial statements. In support of its argument, Silcotub cites Titanium Sponge from the Republic of Kazakhstan[21] and Steel Concrete Reinforcement Bars from Belarus[22] as examples of the Department's preference for the use of one source of financial data, even if such statements provide overhead calculations based solely on depreciation.[23] Silcotub also cites to Persulfates From the People's Republic of China: Final Results of Antidumping Duty Administrative Review, 66 FR 42628 (August 14, 2001) and the accompanying Issues and Decision Memorandum at Comment 5 to show that the Department prefers to value expenses from one set of financial statements instead of using multiple financial statements. Silcotub argues that using overhead data from different financial statements than those used for other financial ratios would result in applying an overhead ratio that has no relation to the actual experience of Al Ezz or El Nasr. Silcotub adds that introducing an overhead ratio from a company, such as Maharashtra, located in another country, into El Nasr's or Al Ezz's financial statements would distort the overhead experience of the surrogate company rather than cure it, because the cost structure in one country differs from the cost structure in another country.[24]

Further, Silcotub states that the case cited in support of U.S. Steel's methodology, namely Hot-Rolled Steel, had different facts from those present in the instant case. The respondent states that, in Hot-Rolled Steel, the Department used data from two sources because there were no usable overhead data at all from the other identified surrogate countries. However, in this case, Silcotub adds, El Nasr data do include usable overhead data and, unlike Hot-Rolled Steel, the record of this case contains data from various pipe producers from the Philippines, a country deemed suitable as a surrogate by the Department.[25] Silcotub also adds that the Hot-Rolled Steel case used overhead ratios from a hot-

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[20] See Silcotub Rebuttal Brief at 13.

[21] See Preliminary Results of Administrative Review: Titanium Sponge from the Republic of Kazakstan, 64 FR 48793 (September 8, 1999).

[22] See Preliminary Results of Administrative Review: Steel Concrete Reinforcing Bars from Belarus, 66 FR 8329 (January 30, 2001).

[23] See Silcotub Rebuttal Brief at 13-14.

[24] See id. at 15.

[25] See id. at 15-16.

rolled steel producer and applied them to the overhead ratio of another hot-rolled steel producer. Silcotub notes that, in sharp contrast, U.S. Steel in this case advocates using overhead data from an Indian seamless and welded pipe producer and applying the ratio of such data to the data of Al Ezz, an Egyptian producer of rebar, billet, wire, and flat-rolled products, a method Silcotub finds indefensible.[26] For these reasons, the respondent proposes that the Department use the detailed financial data provided in the Filipino financial statements on the record, if the Department is not fully satisfied with El Nasr's financial statements. Alternatively, Silcotub suggests that, if the Department finds it necessary to use data from other sources, it should rely upon overhead expenses from Filipino companies, especially Mayer. The respondent states that, because the Philippines is one of the surrogate countries chosen by the Department, it would be unlawful to use data from India (which is not an approved surrogate country) when Filipino data are available. Silcotub cites to Notice of Final Results of Antidumping Duty Administrative Review: Tapered Roller Bearings and Parts Thereof, Finished and Unfinished, From the People's Republic of China, 62 FR 61276, 61282 (November 17, 1997) as an illustration that the Department has consistently held that only where "first-choice" surrogate country data are not available, will it then turn to data from other identified surrogate countries.[27]

Moreover, Silcotub states that, in Notice of Final Results of Administrative Review: Tapered Roller Bearings and Parts Thereof, Finished or Unfinished, from Romania, 62 FR 31075, 31076 (June 6, 1997), the Department refused to use a Thai bearings producer's data because Thailand was not included in the Department's list of surrogate countries. Instead, the Department used a Turkish pipe producer's data because Turkey appeared on the list of surrogate countries.[28]

Finally, Silcotub argues that Maharashtra is not a suitable surrogate company. First, the respondent states that Maharashtra is an Indian company, and India is not one of the surrogate countries on the Department's list of eligible surrogates. Second, Silcotub refutes U.S. Steel's statement that Maharashtra is identical to Silcotub, noting that, unlike Silcotub, Maharashtra produces both seamless and welded pipe. Silcotub also notes that Maharashtra is part of the Jindal Group, a large Indian conglomerate, which likely provides the billet and coil it uses to make seamless and welded pipe. According to Silcotub, Maharashtra, as part of the Jindal Group, is essentially an integrated producer and is, therefore, not a logical surrogate for Silcotub, which buys all of its raw materials from unrelated suppliers.[29]

Department Position:

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[26] See id. at 16.

[27] See Silcotub Rebuttal Brief at 17.

[28] See id.

[29] See Silcotub Rebuttal Brief at 18.

For purposes of the final results of this review, we have continued to value factory overhead, SG&A expenses, interest expenses, and profit based on the fiscal year 1998 financial statements of El Nasr, because we find the data provided in El Nasr's financial statements to be the best information available on the record of this administrative review. Although El Nasr's financial statements are not as contemporaneous with the POR as those of Al Ezz or Mayer, the El Nasr financial statements provide sufficient information for calculating the financial ratios of overhead, SG&A expenses, financial expenses, and profit. El Nasr, like Silcotub, is not a fully integrated company in that it purchases its major material input used in the production pipe. Moreover, as established in the Department's preliminary results of this review, El Nasr produces products comparable to seamless pipes in a country which the Department selected as the surrogate for Romania, and from which we were able to obtain surrogate values for virtually all of the factors of production.

We note that, in light of the comments raised by U.S. Steel and the respondent pertaining to the calculation of financial ratios based on El Nasr's financial statements, and upon further examination of these financial statements, for purposes of the final results of this administrative review, we have reclassified certain expenses to account appropriately for the financial ratios for depreciation and non-depreciation overhead, SG&A expenses, interest expenses, and profit. Consequently, the financial ratios of SG&A expenses, overhead, and profit differ from those used in the preliminary results of this review. For further details, please see the memorandum for the Factors of Production Valuation for Final Results, dated March 10, 2003 (Valuation Memorandum).

With respect to the Al Ezz financial statements, unlike El Nasr and Silcotub, Al Ezz is a fully integrated company that produces steel billet and is documented as having a continuous billet caster with annual capacity of 800,000 tons. See Iron and Steel Works of the World, 14th Edition (2001), as well as Al Ezz's Board of Directors Report for the Year 2001, provided in Table 2 of U.S. Steel's September 30, 2002, submission. Although the Al Ezz financial statements are contemporaneous with the POR, using such financial statements would be inappropriate given the extent to which the experience of Al Ezz, as a fully integrated company producing billets, differs from that of Silcotub. We agree with Silcotub that Al Ezz, as a fully integrated producer, is more capital intensive and has different raw material and energy requirements than Silcotub, which merely converts the purchased billet into pipes. For this reason alone, given the availability of better information, we determined that using the Al Ezz financial statements as a basis for calculating Silcotub's financial ratios is inappropriate. See Hot-Rolled Steel, 66 FR 49625, and the accompanying Issues and Decision Memorandum, at Comment 19.

As indicated above, Silcotub requests that the Department use the financial statements of Mayer, a Filipino company producing steel pipes. Although Mayer is located in the Philippines (a comparable surrogate country), and its financial statements may be useable for the calculation of the financial ratios, we determined that El Nasr's financial statements are more appropriate than those of Mayer because, as indicated above, virtually all other surrogate values are obtained from Egypt, and it is the Department's normal practice, when appropriate data are available, to value all factors in a single surrogate country, as stipulated in section 351.408(c)(2) of the Department's regulations.

Comment 3: Valuation of Natural Gas

U.S. Steel argues that the Department should value natural gas using contemporaneous quarterly pricing information from Apache Corporation (Apache), a publicly traded oil and gas company in Egypt, instead of the value of natural gas based on a 1998 Egyptian governmental decree, adjusted for inflation, which was used by the Department for purposes of the preliminary results. U.S. Steel placed information on the record showing Apache's natural gas prices in Egypt for the six quarters covering 2000 and the first half of 2001, urging the Department to use these data because they correspond most closely to the POR.

Silcotub, in contrast, requests that the Department continue to use as a surrogate the natural gas prices listed in an Egyptian governmental decree. Silcotub argues that U.S. Steel's suggestion that the Department use unverified natural gas prices from an Apache press release to value natural gas prices in Egypt is improper for four reasons. First, such gas prices do not reflect the cost of purchasing gas in countries in which Apache produces gas. Silcotub asserts that the price data included in the Apache documents reflect production and prices for gas obtained in various countries. The respondent states that there is no evidence to suggest that such prices are the same prices at which Apache sells its gas in Egypt.[30] According to Silcotub, even if Apache does sell gas in Egypt, it is not clear if Apache is a major producer or if it is selling to the steel industry. Second, there is no evidence that the Egyptian law setting the price of natural gas has changed. The respondent states that U.S. Steel presented no evidence that this Egyptian law has been abrogated to warrant a change in the methodology of relying upon such law in valuing natural gas. Third, Silcotub states that the Department has a clear preference for public statistics. Citing Tapered Roller Bearings and Parts Thereof, Finished or Unfinished, from the People's Republic of China: Final Results of 1997-1998 Antidumping Duty Administrative Review and Final Results of New Shipper Review, 64 FR 61837 (November 15, 1999), the respondent argues that the Department should use official public Egyptian data, which is relevant to the entire country, instead of using data from Apache, which is specific to one company. Fourth, Silcotub claims that U.S. Steel's calculation of the price of natural gas is suspect, stating that such prices are over 300 percent higher than the prices used by the Department, and among the highest prices in the world. Silcotub argues that, without substantiation by a public source, such prices are unusable.[31]

Department Position:

We find the pricing data for natural gas provided by U.S. Steel based on financial reports of a private company, Apache, to be ambiguous, in that the basis on which prices of natural gas were determined is not clearly defined in those reports. For instance, it is unclear to whom such gas prices were offered

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[30] See Silcotub Rebuttal Brief at 21.

[31] See id. at 22.

and whether or not such gas prices were what Apache paid for its natural gas consumption. With respect to the price of natural gas listed in the governmental decree, we note that said rate has not changed since 1998 and, therefore, cannot be relied upon as a market price. For these reasons, we have not used either the prices provided in Apache's financial reports or that provided in the Egyptian government's decree. Instead, we have used the publicly available Egyptian data from an article dated July 18, 2002, published by Dow Jones (http://www.rigzone.com/news/article.asp?a_id=3846). Such data are contemporaneous with the POR and reflect market prices for natural gas in Egypt. See also the Notice of Final Determination of Sales at Less Than Fair Value: Urea Ammonium Nitrate Solutions From the Russian Federation, 68 FR 9977 (March 3, 2003), and the Valuation Memorandum of this Romanian review.

Comment 4: Valuation of Electricity

U.S. Steel argues that, in its preliminary results of this review, the Department should have used the Egyptian electricity rate for medium voltage usage, instead of the lower rate for high voltage usage.[32] According to U.S. Steel, Silcotub is, at the very most, a "medium voltage" consumer of electricity. In support of its argument, U.S. Steel cites Hot-Rolled Steel, 66 FR 49625, and the accompanying Issues and Decision Memorandum, at Comment 3, in which the Department used the identical source to value electricity for Romanian mill Sidex S.A. (Sidex) at the "very high voltage" rate. However, according to Iron & Steel Works of the World, Sidex has an annual steelmaking capacity of 10 million metric tons, which is forty times greater than Silcotub's 250,000 metric tons processing capacity. U.S. Steel speculates that, because Silcotub consumes only a small fraction of the energy used by a very large producer like Sidex, Silcotub cannot be considered anything more than a "medium voltage" electricity consumer. Therefore, U.S. Steel requests that the Department value electricity based on the higher electricity rate for medium voltage usage.

Silcotub refutes U.S. Steel's argument that Silcotub is not a "very high voltage" user by noting that the electricity consumption for the POR reported in its April 9, 2002 supplemental questionnaire response is 110kV, which is 110,000 volts. According to the respondent, this voltage level is extremely high and is typical of seamless pipe producers. Silcotub adds that it consumed almost 130,000,000 kwh of electricity during the POR.[33] Silcotub also stated that the same interested party in this case alleged in Hot-Rolled Steel that "very high voltage" refers not to the amount of electricity consumed but to whether the voltage, or intensity, is high, which is inconsistent with U.S. Steel's statements in this case. Finally, Silcotub argues that whether "high voltage" refers to intensity or amount, Silcotub's usage clearly meets both criteria. According to Silcotub, the Department has verified Silcotub, "seen its

[32] In its preliminary results, the Department valued the factor for electricity based on a report, issued by the U.S. Foreign Commercial Service, reflecting electricity rates based on: (a) very high voltage usage, (b) high voltage usage, and (c) medium and low voltage usage.

[33] See Silcotub Rebuttal Brief at 20.

furnaces, and has on the record proof of the high intensity of the voltage used by Silcotub, and additional information on the high quantity of electricity used by Silcotub."[34] Consequently, Silcotub finds no reason for the Department to deviate from the methodology it used in the preliminary results of this review.

Department's Position

We agree that the amount of electricity consumed does not determine whether a company is a "high voltage user," because the term "voltage" means intensity of electricity. A steel company that produces small quantities of steel can still qualify as a high voltage user due to the intensity of the electricity that the company needs in order to make steel. Therefore, we have not based our decision as to whether Silcotub is a "very high voltage user" on Silcotub's electricity consumption rates. While U.S. Steel may be correct that Silcotub has a smaller production capacity than hot-rolled producer Sidex, this fact does not determine whether Silcotub should be classified as a "very high voltage user," a "high voltage user," or a "medium-voltage user." Accordingly, we see no reason to change our valuation of electricity from the preliminary results and have continued to value electricity for Silcotub based on the "very high-voltage user" category.

Recommendation

Based on our analysis of the comments received, we recommend adopting the above positions. If this recommendation is accepted, we will publish the final determination in the Federal Register.

AGREE____ DISAGREE____

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Joseph Spetrini
Acting Assistant Secretary
for Import Administration

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Date

[34] Silcotub Rebuttal Brief at 21.